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C O N F I D E N T I A L SECTION 01 OF 03 SANAA 002426

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SUBJECT: YEMEN'S THIRD GSM TENDER: CHINESE MAKE AN OFFER
ROYG CAN'T REFUSE

REF: SANAA 196

Classified By: DCM Nabeel Khoury for reasons 1.4 b and d.

1. (C) Summary. Ambassador met August 17 with Minister of Telecommunications and Information Technology Abdulmalik al-Moalimi to discuss the status of a third tender for a GSM mobile phone operator. Post is advocating for Millicom, which has a vending agreement with Motorola. On August 2, the ROYG announced five official bids. The highest offer came from Unitel, a previously unknown Chinese company, at almost 50 million USD more than its closest competitor. The Chinese bid raised questions about the transparency of the tendering process, and possible deals with the Minister of Telecommunications. The ROYG-owned CDMA operator, Yemen Mobile, has proven highly unprofitable and left the Minister vulnerable to accusations that he cost the Government approximately 100 million USD by launching the venture. Sources report that the Minister hopes to award the tender to the Chinese, who will return the favor by covering the ROYG's losses on Yemen Mobile. End summary.

2. (C) After a delay of nearly two years, on August 2, five official bids were announced for a third GSM mobile phone operator in Yemen. Yemen currently has two GSM companies, Spacotel and Sabafon, and one CDMA operator, Yemen Mobile. The highest bid came from Unitel (Chinese), at 149 million USD; second was Oman Communications at 101.5 million USD; Millicom offered 44 million USD, with an additional 7.5 million USD set aside for a telecommunications training college in Yemen; Watania, the Kuwaiti telecom company, bid 34 million USD; and a fifth entity calling itself al-Kon, bid 51 million USD. By several accounts, a sixth bid by SyriaTel, backed by Saudi billionaires Boqshan and al-Amoudi, was disqualified at the last minute.

Chinese Bid Shocks Observers

3. (C) According to several witnesses, the Chinese bid caused audible gasps at the tender meeting. Even the most optimistic analyses of Yemen's telecom market indicate that the bid is wildly overpriced, and immediately raised questions about side-deals with the Minister of Telecommunications. (Note: Minister Moalimi is Chinese educated and brokered several deals with Chinese vendors to support the ROYG-owned CDMA company, Yemen Mobile. End note.) Ambassador inquired about the Chinese bid, and Moalimi responded that he was "as surprised as you are." He claimed he was distressed by the size of the bid, as he knew it would draw attention to his ties with the Chinese. He theorized that the Chinese market was saturated and that the Chinese were anxious to expand to new countries, estimating that the Yemen market could bear 3.5 million new subscribers. Suspensions have been exacerbated by rumors that Unitel has already unloaded two shipments of GSM equipment while the tender supposedly has yet to be decided. According to the official tender document, the winning bidder must deliver its payment within two weeks in one lump sum. Few believe that any company, the Chinese included, could deliver such a substantial amount within the required time period.

4. (C) Tariq al-Haidary, General Manager of Sabafon, said that Unitel will make the bulk of its payment by forgiving loans owed by the ROYG to Chinese companies. Unitel is unknown as a GSM operator, and was alternately reported by the official Yemeni press as China Mobile and China Telecom. It is widely believed that Unitel is a front for the Chinese vending giant Huawei, which provides the technical backbone for the Yemen Mobile system. (Note: All of these companies are state-owned. End note.)

5. (C) Yemen Mobile was reportedly established with 80 million USD in loan guarantees from the Chinese Government, and has been running in the red ever since. According to Deputy Prime Minister Ahmad Sofan, the state-owned company has yet to pay any taxes to the ROYG, despite Moalimi's promises of huge profit. Yemen Mobile is closely associated with the President's family, most notably Saleh's nephew Yahya and his son Ahmad Ali, who are likely majority shareholders. (reftel) As such, the prospect of erasing loan payments to the Chinese is undoubtedly attractive to the

Minister.

Some Bids More Equal Than Others

16. (C) Fathi Fahem, the local business partner for Millicom, believes that Unitel's bid is invalid under the terms of the tender. Any association with Huawei would disqualify the bid due to conflict of interest. According to the official tender document, no foreign company can hold more than sixty percent of the company, but Unitel's local investors are relatively unknown. Moalimi identified them as former Spacotel Deputy Commercial Manager al-Mashdali (who reportedly has invested only 100,000 USD), as well as al-'Aisi and Abdulkarim Abdulelah. In addition, the tender requires that all bids must include an established telecom operator and there is no record of Unitel providing such service anywhere in the world. By these standards, the Al-Kon bid is also suspect. The company is headed by Abdulsalaam al-Ghamesh, son of Ghaleb al-Ghamesh, Yemen's Intelligence Chief with the Political Security Organization. Despite claims that he is recruiting an American company, there is as yet no declared operating partner.

17. (C) Of the remaining companies, Oman Communications is well-respected, but operates only in its home country. Oman recently opened its own market to competition, which some believe is motivating the company to seek out new markets in neighboring Yemen. Oman Communications, local partner is Saleh Ali Muhsen, brother of one of Yemen's most powerful regional military commanders, Mohammed Ali Muhsen. Haidary believes that Oman was tipped off by the Minister about the Unitel bid, and as result raised their bid well above what they originally intended to offer. In fact, Moalimi cited the Oman bid as proof that Unitel's investment was not beyond reason, accusing the other three companies of being too conservative. Watania is also a well-known company that is expanding aggressively in the region, and has partnered locally with the business giant Hayel Saeed.

18. (C) Legal, technical, and financial committees are currently evaluating the bids, and the Ministry will offer its recommendations for a short-list to the inter-ministerial High Tendering Committee by mid-September. The Committee will then make its selection and refer the decision to the Cabinet. The bids are evaluated according to a points system, in which 60 percent is based on the value of the bid and the remaining 40 percent looks at experience, quality of service, and other factors. By the Minister's own admission, this rating system all but requires the Ministry to recommend Unitel as its first choice. In Millicom's view, however, any bid that does not meet the basic requirements of the tender should be disqualified completely, and not referred to the High Tendering Committee.

Post Backs Millicom Bid

19. (U) Millicom is a NASDAQ-listed corporation with a majority of American shareholders. As a result of a vending partnership with Motorola, post received approval from the Department of Commerce to advocate on their behalf. Millicom is focused primarily on emerging markets, and is currently operating in such countries as Pakistan, Paraguay, and Vietnam, with over 400 million total subscribers. As a member of the media conglomerate The Kinnevik Group, Millicom offers its subsidiary companies and host countries advertising space in media such as the free Metro paper available in many international cities. Millicom executives believe this could be of great benefit to Yemen's tourism sector.

110. (SBU) Of the five finalists, Millicom contends that it is most qualified to operate Yemen's third GSM company. They have worldwide operating experience, a track record in increasing telecom penetration in developing markets, and submitted what they believe is a competitive bid. Local partner Fahem is considered by fellow businessmen to be a respectable and highly successful entrepreneur, with diverse interests including commodities imports and large holdings in the U.S. He has good contacts in the ROYG, but is not considered as much of an insider as competitors Hayel Saeed, Ghamesh, or Ali Muhsen.

U.S. Demonstrates Some Influence in Tendering Process

11. (C) In the days preceding the deadline, it seemed likely that the ROYG would bend the rules to accommodate powerful interests who were unable to submit bids on time. A number of influential businessmen, including the Rowaishan family, Yahya Saleh (head of the Central Security Organization), and two Saudis of Yemeni origin, Boqshan and al-Amoudi, requested

an extension. (Note: Yahya approached several competing companies, including Millicom, in an attempt to become a partner, and may still attach himself to the winning bid. End note.) A number of potential international partners were mentioned, including Deutsche Telecom Consulting, Vodacom of South Africa, and Etisalat of UAE, but none was willing to commit by August 2.

12. (C) Millicom representative David Kimche expressed to DCM that extending the deadline was contrary to international tendering practices and would open the door to backroom deals. DCM sent a letter to Minister Moalimi and Prime Minister Bajammal requesting that the ROYG honor its tendering guidelines for the sake of the broader investment climate. According to Haidary, Moalimi was upset that the process had attracted outside attention, but ultimately decided to follow post's advice.

Will ROYG Give in to Chinese Temptation?

13. (C) Comment: Despite intense competition between the three existing wireless operators, mobile penetration remains low in Yemen with fewer than 1.5 million subscribers. Current rates are relatively low for the region, but remain expensive for the average Yemeni consumer. Increased competition from a legitimate third GSM operator would benefit Yemeni subscribers and expand coverage throughout the country. Despite indications that the Chinese bid does not follow tendering guidelines, ROYG officials will find the 149 million USD windfall hard to pass up. According to Moalimi, the Minister of Finance is already pushing to include tender profits in a supplementary budget. If the Yemen Mobile experience is any indication, Unitel will likely recoup their up-front investment by delivering poor service and cannibalizing existing markets. By choosing a shady operator in exchange for quick profits and loan forgiveness, the ROYG will deliver yet another blow to the overall investment climate, and undermine one of the few areas of private sector growth in Yemen. End comment.
Krajeski